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March 24, 2000

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BY HAND

Magalie Roman Salas, Secretary
Federal Communications Commission
445 12th Street, S.W., Room TW-A325
Washington, D.C. 20554

ORIGINAL

Re: Reply Comments of CenturyTel, Inc. to AT&T Opposition regarding CenturyTel
and GTE Request for Waiver in CC Docket No. 96-45 DA 00-404

Dear Ms. Salas:

Enclosed please find an original and 4 copies of the Comments of CenturyTel, Inc.,
in the above-referenced proceeding.

Please stamp and return to me the copy provided for this purpose. If you have any
questions regarding this matter, please call me at (202) 637-2225.

Sincerely,

Richard R. Cameron

Richard R. Cameron

cc: Sheryl Todd (three copies)
International Transcription Services, Inc. (with diskette)
Judy Sello and Mark Rosenblum (AT&T)
Richard Askoff and Regina McNeil (NECA)
Gail Polivy

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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554

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MAR 24 2000
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OFFICE OF THE SECRETARY

In the Matter of)
)
Joint Petition for Waiver of the Definition of)
"Study Area" Contained in the Appendix to Part)
36 of the Commission's Rules (Glossary) of:)
)
CenturyTel of Northwest Arkansas, LLC)
CenturyTel of Central Arkansas, LLC)
)
and)
)
GTE Arkansas Incorporated)
GTE Midwest Incorporated)
GTE Southwest Incorporated)
)
Petition for Waiver of Sections 69.3(g)(2))
and 61.41(c) of the Commission's Rules of:)
CenturyTel of Northwest Arkansas, LLC)
CenturyTel of Central Arkansas, LLC)

CC Docket No. 96-45
DA 00-404

CENTURYTEL REPLY TO AT&T OPPOSITION

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CENTURYTEL OF CENTRAL ARKANSAS, LLC

March 24, 2000

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554

In the Matter of)	
)	
Joint Petition for Waiver of the Definition of)	
“Study Area” Contained in the Appendix to Part)	
36 of the Commission’s Rules (Glossary) of:)	
)	
CenturyTel of Northwest Arkansas, LLC)	
CenturyTel of Central Arkansas, LLC)	
)	
and)	CC Docket No. 96-45
)	DA 00-404
GTE Arkansas Incorporated)	
GTE Midwest Incorporated)	
GTE Southwest Incorporated)	
)	
Petition for Waiver of Sections 69.3(g)(2))	
and 61.41(c) of the Commission’s Rules of:)	
CenturyTel of Northwest Arkansas, LLC)	
CenturyTel of Central Arkansas, LLC)	

CENTURYTEL REPLY TO AT&T OPPOSITION

I. Introduction and Background.

CenturyTel of Northwest Arkansas, LLC, and CenturyTel of Central Arkansas, LLC (collectively, CenturyTel), through their attorneys, hereby offer the following reply to the opposition of AT&T, filed March 17, 2000, to their requests for waiver of the all-or-nothing price cap rule contained in section 61.41(c) of the Commission’s rules, and the rule governing participation in the National Exchange Carrier Association (NECA) common line pool contained in section 69.3(g)(2) of the Commission’s rules.

CenturyTel has requested these waivers in connection with its purchase of approximately 200,000 local exchange access lines located primarily in rural markets in the state

of Arkansas from GTE's Arkansas operating companies.¹ In opposition, AT&T argues (1) that CenturyTel, Inc., the parent company of CenturyTel, should be required to convert to price cap regulation in connection with this purchase; and (2) that CenturyTel should not be permitted to return these lines to the common line pool administered by NECA,² despite NECA's concurrence in the transaction and certification that there will be no material impact on the pool itself as a result of the requested waiver.

The Commission should reject AT&T's objections, as neither substantiated nor relevant. Although CenturyTel serves approximately 1.3 million access lines in roughly 600 local exchanges, CenturyTel's operating territory contains a mere 10.28 lines per square mile. Over half of its study areas contain less than 10,000 lines and approximately half of its exchanges serve less than 1000 lines each. Each of the CenturyTel operating companies meets the definition of a "rural telephone company" contained in section 3(37) of the Communications Act of 1934, as amended (the Communications Act).³ CenturyTel is not the type of carrier for which price cap regulation was intended.

CenturyTel will provide high-quality services and bring new services to the communities served by these exchanges, a fact which has already engendered support from customers and civic leaders in those exchange areas, as well as Arkansas Governor Mike Huckabee and Arkansas Senator Tim Hutchinson. CenturyTel is in the process of rolling out advanced services, including broadband digital subscriber line (DSL) Internet access, in large

¹ See Public Notice, *CenturyTel And GTE Seek Waiver Of The Definition Of "Study Area" In Part 36 Of The Commission's Rules And Sections 61.41(c) And 69.3(g)(2) of the Commission's Price Cap Rules*, CC Docket No. 96-45, DA 00-404 (Com. Car. Bur. rel. Feb. 25, 2000).

² AT&T Opposition to CenturyTel/GTE Joint Petition for Waiver, CC Docket No. 96-45 (filed Mar. 17, 2000) (AT&T Opposition).

³ 47 U.S.C. § 153(37).

portions of its service areas, and it has targeted its Arkansas exchanges for expedited rollout of these new services. In addition, NECA also filed comments in support of the transaction,⁴ and the requested waivers are consistent with numerous other similar filings recently granted by the Commission. CenturyTel and GTE amply demonstrated in their Joint Petition for Waiver that the transaction as a whole is in the public interest and that the legal waiver standard is met with respect to the specific waivers requested.

II. The Commission Should Not Require CenturyTel, Inc. to Adopt Price Cap Regulation.

Price caps are elective, not mandatory, for all but the largest local exchange carriers (LECs), because the Commission has recognized that its price cap rules may not be appropriate for carriers other than the BOCs and GTE. The Commission has never used the occasion of an acquisition of price cap exchanges by a smaller rate-of-return company to force that carrier to adopt price cap regulation. The Commission should not adopt what would amount to a substantial change in policy in this case. Although this transaction involves approximately 200,000 access lines, that total represents less than 15 percent of the access lines in the state of Arkansas.

AT&T's attempt to portray CenturyTel as large carrier that should be required to convert to price cap regulation are baseless. Contrary to AT&T's assertions, CenturyTel, Inc. is not the type of carrier that can make effective use of price cap regulation at this time and has no interest in doing so. CenturyTel, Inc. has a widely diverse and geographically dispersed local exchange operating territory covering largely rural areas of 20 states. As a result, CenturyTel, Inc. is fundamentally different both from the mandatory price cap carriers and the majority of the

⁴ Comments of the National Exchange Carrier Association, CC Docket No. 96-45 (filed Mar. 17, 2000).

carriers that have elected price caps. According to the Commission's most recent data, CenturyTel, Inc. is *less than one-tenth* the size of even the smallest mandatory price cap carrier, in terms of loops served.⁵ Moreover, although AT&T cites Frontier Corporation (now Global Crossing) and Cincinnati Bell (now Broadwing) as examples of small carriers that have elected price cap regulation with some apparent success, both of these carriers have small, compact, relatively homogeneous and urban operating territories.⁶ CenturyTel, in contrast, specializes in serving rural markets and small towns across the country from Tennessee, Ohio, and Michigan in the East, to Mississippi, Louisiana and Arkansas in the deep South, and Washington State, Oregon and Idaho in the West.

The Commission has repeatedly recognized, most recently in the context of the ALLTEL/Aliant merger that, despite the fact that some independent local exchange carriers have elected and operate successfully under price cap regulation, "small telephone companies should not be forced into a regulatory paradigm that was designed largely on the basis of historical performance of the largest LECs."⁷ The Commission correctly concluded in that proceeding that price cap regulation should not be mandated for midsize carriers with dispersed operating territories like ALLTEL's.⁸ In granting a waiver of section 61.41 to permit the ALLTEL/Aliant merger to proceed, the Commission recognized that, even post-merger, ALLTEL's properties

⁵ Trends in Telephone Service, March 2000, Table 20.3 (Com. Car. Bur., Ind. Analysis Div. rel. Mar. 20, 2000). Exhibit A shows loops in service by holding company as of December 31, 1998, illustrating the vast disparity between CenturyTel and those carriers for whom price cap regulation is mandatory.

⁶ Moreover, while Citizens Utilities Company serves approximately one million lines and has elected price caps on a company-wide basis, CenturyTel believes that Citizens has experienced only mixed results with price caps. In any event, Citizens has reached agreements to purchase over 700,000 additional access lines from U S WEST and GTE, making it, once those transactions close, an even larger carrier overall than CenturyTel, Inc. is today.

⁷ *ALLTEL Corporation Petition for Waiver of Section 61.41 of the Commission's Rules and Applications for Transfer of Control*, CCB/CPD 99-1, Memorandum Opinion and Order, FCC 99-156 (rel. Sept. 3, 1999), at para. 34.

would be “scattered largely in small to mid-sized towns and cities,” making ALLTEL “unlike any of the large BOCs and more similar to smaller carriers.”⁹ As a result, the Commission found that ALLTEL would be unable to achieve the economies of scale and scope that typically make price cap regulation a viable option for local exchange carriers.¹⁰ Like ALLTEL, CenturyTel is a mid size carrier, and is regulated as a rate-of-return carrier. CenturyTel’s operating territories and services are similar in character to ALLTEL’s; however CenturyTel is a substantially smaller carrier, serves much smaller markets and, as such, is even less suited to price cap regulation than ALLTEL would have been. With sweeping changes to the price cap system pending, CenturyTel should not be made to elect price caps at this time, especially based on unfounded assertions by a global carrier the size of AT&T.¹¹

AT&T’s argument that CenturyTel, Inc. is likely soon to elect price caps after building up a large rate base is equally groundless and is not a factor for CenturyTel in pursuing this transaction. As discussed above, CenturyTel, Inc. believes that price cap regulation would be a poor choice at this time and CenturyTel, Inc. has no plans to convert to price caps. In any event, the Commission would have ample opportunity to review any such election, and CenturyTel’s proposed rates, in connection with its initial price cap tariff filings. Thus, there is

⁸ At the time of the merger, ALLTEL served 1.8 million access lines in 14 states, and Aliant served 285,000 lines, all in Nebraska. *Id.* at para. 2.

⁹ *Id.* at para. 35.

¹⁰ *Id.* at para. 32. In fact, in the past, the Commission has granted similar waivers in connection with transactions in which the transaction involves substantially greater numbers of lines than CenturyTel is purchasing. *See, e.g., id.* (involving 285,000 access lines in Nebraska); *ALLTEL Service Corporation Petition for Waiver of Section 61.41 of the Commission’s Rules*, Order, 8 FCC Rcd 7054 (1993) (involving 300,000 access lines in Georgia).

¹¹ Even assuming its argument is relevant to the Commission’s analysis of the waiver request, AT&T does not offer a scintilla of evidence concerning the viability of CenturyTel, Inc., under price cap regulation.

no basis for AT&T's claim that CenturyTel, Inc. would somehow "game the system,"¹² especially in light of the fact that CenturyTel, Inc., has never before sought to do so in connection with its prior purchases of local exchange properties.¹³

III. The Commission Should Permit CenturyTel to Rejoin the NECA Common Line Pool.

AT&T's arguments that the Commission should deny CenturyTel's request for a waiver of the rules governing participation in the NECA common line pool are equally groundless. At bottom, AT&T argues that the waiver should be denied (1) because participation in the NECA common line pool is fundamentally inconsistent with the operation of price cap regulation; and (2) because the NECA common line interstate access rates are higher than those GTE has charged in the past.

While there may be substantial difficulties involved in harmonizing participation in both price cap regulation and the common line pool, CenturyTel does not believe that it should be made to adopt price cap regulation in this case, and has sought a waiver of both rules precisely to avoid these difficulties.

¹² E.g., *ALLTEL Corp. Petition for Waiver of Section 61.41 of the Commission's Rules and Applications for Transfer of Control*, CCB/CPD No. 99-1, Memorandum Opinion and Order, FCC 99-156 (rel. Sept. 3, 1999); (*ALLTEL/Aliant Merger Order*); *The Island Telephone Co. et al. Petition for Waiver of the Definition of "Study Area" Contained in Part 36, Appendix - Glossary, of the Commission's Rules*, 7 FCC Rcd 6382, 6383 (Com. Car. Bur. 1992) ("Except for the exchanges it has sold to Island/TDS, Contel remains regulated under price caps; it retains no ability to bring these exchanges back under price caps."). In any event, AT&T incorrectly characterizes the "gaming" issue. AT&T Opposition at 7-8. The Commission's "all-or-nothing" price cap rule, coupled with the "one-way door" into price caps was adopted by the Commission, not to ensure that rates continually decline, or reach a particular level, but to prevent manipulation of the rate base itself, through cost shifting among carrier affiliates or through a buildup of investment under rate-of-return regulation, followed by a period of relatively little investment under price caps. For the reasons explained in the Joint Petition for Waiver, and repeatedly accepted by the Commission in the past, none of these concerns is at issue here.

¹³ See, e.g., *Petition for Waivers filed by Kendall Telephone, Inc. and Wisconsin Bell, Inc. Concerning Definition of "Study Area" Contained in Part 36 Appendix-Glossary of the Commission's Rules and Section 61.41(c)(2), 69.3(e)(6), and 69.3(g)(2) of the Commission's Rules*, CC Docket No. 96-45, Memorandum Opinion and Order, DA 98-1733 (rel. Sept. 15, 1998).

CenturyTel submits that the effect of this transaction on interstate access rates is not the primary issue before the Commission in connection with this waiver, and may not even be a relevant factor in the analysis. As discussed in the Joint Petition for Waiver, and in Section IV, below, CenturyTel will improve and expand the services offered to customers in the exchanges in many material respects, including expedited rollout of digital subscriber line (DSL) Internet access, and other advanced and information services. The public interest benefits of this transaction, in terms of improved services provided by a locally-based carrier, far outweigh any incremental effect on interstate access rates.

Moreover, AT&T grossly overstates the interstate access rate impact of this transaction by using an incomplete and fundamentally flawed analysis. While AT&T purports to compare the GTE and NECA interstate carrier common line rates, CenturyTel submits that a more productive analysis would have focused on changes in overall interstate access charges. As the attached chart demonstrates, the conversion to NECA rates will *reduce* interstate access charges in the exchanges by over \$900,000.¹⁴

CenturyTel's analysis shows that, as a result of the transition to NECA common line and traffic sensitive rates, overall carrier-based interstate access charges for the exchanges involved in this transaction, will increase by only approximately \$612,898. Based on AT&T's reported total on 269.8 billion interstate access minutes carried in 1998,¹⁵ this represents an infinitesimally small impact on AT&T of approximately \$0.00000227 (227 *millionths* of a cent) per AT&T interstate access minute, even assuming that every access line in these exchanges is presubscribed to AT&T. Such a truly negligible change in interstate rate levels will exert no

¹⁴ This figure and other information supporting the rate analysis described in this section is contained in Exhibit B.

upward pressure on AT&T's long distance rates, despite AT&T's claims to the contrary in its Opposition.¹⁶ Moreover, any possible harm that would result from this modest increase in carrier-based interstate access rates pale in comparison to the consumer benefits of more than a \$1.5 million *reduction* in end user charges in these exchanges, in the form of lower subscriber line charges (SLCs) assessed on CenturyTel's customers within the exchanges being purchased.

AT&T also fundamentally misapprehends the purpose of the common line pooling "all-or-nothing" and "one-way door" rules. Contrary to AT&T's assertions, these rules were not adopted by the Commission to prevent "gaming" by carriers of the dual system of price cap and rate-of return rate regulation, but to preserve the viability of the pool and to limit the impact of long term support payments on LECs that withdrew from the pool.¹⁷ These concerns are fully addressed by the requirement that carriers seeking permission to have lines reenter the pool must obtain NECA's certification that there will be no adverse impact on the pool itself. CenturyTel has complied with this requirement and, in fact, NECA has filed comments in this proceeding supporting CenturyTel's requested waiver and reiterating its conclusion that there will be no material impact on the pool.¹⁸

IV. AT&T Has Ignored the Public Interest Benefits of the CenturyTel Purchase.

Throughout its Opposition, AT&T fails to recognize the manifest public interest benefits to be gained through this transaction. CenturyTel, Inc., a carrier that specializes in providing high-quality telecommunications services to rural areas and small towns, will quickly

¹⁵ Long Distance Market Shares Fourth Quarter 1998 (Com. Car. Bur., Ind. Analysis Div., rel. Mar. 31, 1999), at Table 1.1.

¹⁶ AT&T Opposition at 8, n.17.

¹⁷ See *Amendment of Part 69 of the Commission's Rules Relating to the Common Line Pool Status of Local Exchange Carriers Involved in Mergers or Acquisitions*, Report and Order, 5 FCC Rcd 231 (1989).

be able to provide its Arkansas customers with improved and additional services, including broader availability of local dial-up Internet access, broadband Internet access using digital subscriber line (DSL) technology, other advanced services, voice mail, and caller ID, once this transaction is approved. These customers will quickly see the benefits of these services, offered by a locally-based carrier that specializes in meeting their unique communications needs – benefits that they otherwise would not realize.

Although AT&T objects to the number of study areas CenturyTel, Inc. will operate in Arkansas, CenturyTel has not proposed to create any new study areas as part of this transaction. Rather, CenturyTel largely is purchasing GTE's existing study areas whole, and will continue to operate them as such. As discussed in the waiver petition, however, CenturyTel does propose to correct a historical anomaly by integrating one Arkansas exchange, formerly governed as part of a Missouri study area, into an existing Arkansas study area, so that rates, costs, and service quality issues can be subject more directly to review by the Arkansas Commission. This change, which will place issues affecting Arkansas ratepayers more squarely before the Arkansas Commission, clearly will serve the public interest, and the Commission should waive its rule to permit this change to occur.


¹⁸ NECA Comments at 4.

V. Conclusion.

For all of the foregoing reasons, CenturyTel respectfully requests that the Commission deny AT&T's opposition in this matter and grant the requested waivers expeditiously.

Respectfully submitted,

CENTURYTEL OF NORTHWEST ARKANSAS, LLC
CENTURYTEL OF CENTRAL ARKANSAS, LLC

By: 
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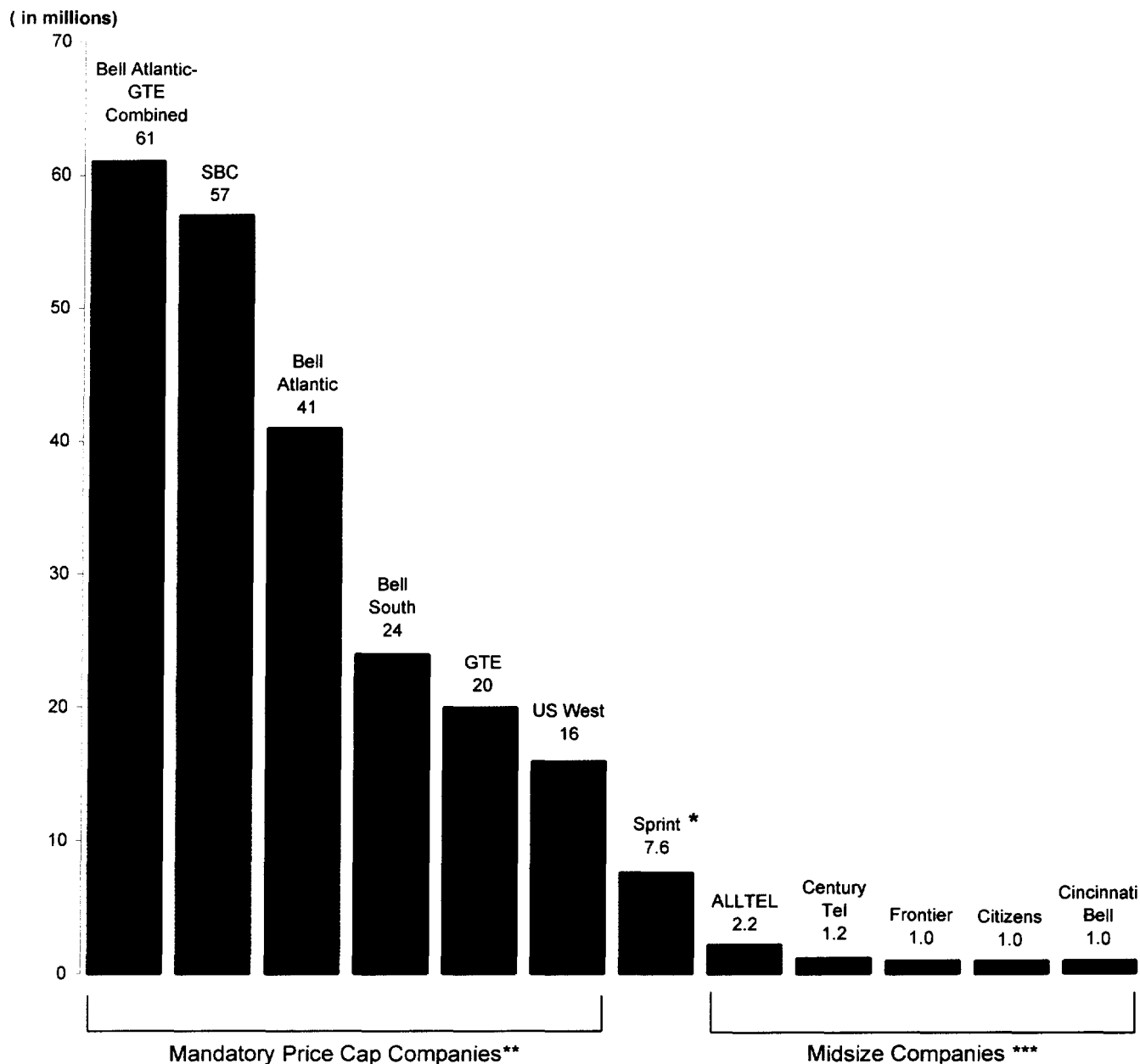
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CENTURYTEL OF CENTRAL ARKANSAS, LLC

EXHIBIT A:

**COMPARISON OF LOCAL EXCHANGE CARRIERS BY
NUMBER OF SUBSCRIBER LINES**

Comparison of Local Exchange Carriers by Number of Subscriber Lines (Data as of December 31, 1998)



* Before merger with MCI-Worldcom, which has approximately 27 million subscribers for inter-exchange service.

** See 47 C.F.R. § 61.41(a)(2).

*** Having, in the aggregate, fewer than 2% of the nation's subscriber lines installed, cf. 42 U.S.C. § 251(f)(2), 47 C.F.R. § 32.9000.

Source: Trends in Telephone Service, March 2000 (FCC Industry Analysis Division)

EXHIBIT B: COMPARISON OF INTERSTATE ACCESS RATES IN ARKANSAS

COMPARISON OF INTERSTATE ACCESS RATES IN ARKANSAS
AS OF JANUARY 1, 2000

gtearkcomp8

Description	1998 GTE AR MOU	GTE Arkansas Rates	GTE AR Revenue	1998 GTE SW MOU	GTE Southwest Rates	GTE SW Revenue	NECA Rates	NECA Revenue Using GTE AR MOU	NECA Revenue Using GTE SW MOU	Net Revenue Difference
Switched Access Service										
Rates and Charges										
Carrier Common Line Access Charge										
Originating Per Access Minute	185,246,051	\$0.0210566	\$3,900,652	132,990,065	\$0.0209640	\$2,788,004	\$0.010000	\$1,852,461	\$1,329,901	(\$3,506,295)
Terminating Per Access Minute	162,834,783	\$0.0123669	\$2,013,761	115,469,746	\$0.0059966	\$692,426	\$0.011400	\$1,856,317	\$1,316,355	\$466,484
Transport Interconnection Charge (TIC)										
Rate Per Access Minute (Originating)*	185,246,051	\$0.0000000	\$0	132,990,065	\$0.0000000	\$0	\$0.004933	\$913,819	\$656,040	\$1,569,859
Rate Per Access Minute (Terminating)*	162,834,783	\$0.0000000	\$0	115,469,746	\$0.0000000	\$0	\$0.004933	\$803,264	\$569,612	\$1,372,876
Switched Transport										
Tandem Switched Transport										
Termination (Rate Per Access Minute)	466,428,318	\$0.0001416	\$66,046	233,477,684	\$0.0000514	\$12,001	\$0.000933	\$435,178	\$217,835	\$574,965
Facility (Rate Per Access Minute Per Mile)	4,601,628,625	\$0.0000472	\$217,197	8,728,393,160	\$0.0000170	\$148,383	\$0.000189	\$869,708	\$1,649,666	\$2,153,795
Tandem Switching (Rate Per Access Minute)	151,763,244	\$0.0013216	\$200,570	151,560,485	\$0.0004788	\$72,567	\$0.003920	\$594,912	\$594,117	\$915,892
Information Surcharge (Rate Per Access Minute)	348,080,834	\$0.0003379	\$117,617	248,459,811	\$0.0005726	\$142,268	\$0.000161	\$56,041	\$40,002	(\$163,842)
Local Switching										
Local Switching Usage										
LS2-Rate Per Access Minute*	348,080,834	\$0.0046590	\$1,621,709	248,459,811	\$0.0065131	\$1,618,244	\$0.009211	\$3,206,173	\$2,288,563	\$2,254,784
Shared End Office Trunk Port (Rate Per Access Minute)	258,798,100	\$0.0007782	\$201,397	52,474,712	\$0.0008683	\$45,564	\$0.000000	\$0	\$0	(\$246,960)
Shared Multiplexing (Rate Per Access Minute)	151,763,244	\$0.0000311	\$4,720	151,560,485	\$0.0000322	\$4,880	\$0.000000	\$0	\$0	(\$9,600)
Marketing Expense (Rate Per Terminating Minute)	162,834,783	\$0.0031183	\$507,768	115,469,746	\$0.0016469	\$190,167	\$0.000000	\$0	\$0	(\$697,935)
PICC										
Primary Access Lines	1,173,216	\$1.04	\$1,220,145	869,772	\$1.04	\$904,563	\$0.00	\$0	\$0	(\$2,124,708)
Multi-Line Access Lines	235,788	\$4.31	\$1,016,246	140,100	\$4.31	\$603,831	\$0.00	\$0	\$0	(\$1,620,077)
Non Primary Res Access Lines	85,716	\$2.53	\$216,861	43,296	\$2.53	\$109,539	\$0.00	\$0	\$0	(\$326,400)
Total Revenue Excluding EUCL			\$11,304,689			\$7,332,436		\$10,587,871	\$8,662,091	\$612,838
EUCL										
Primary Access Lines	1,173,216	\$3.50	\$4,106,256	869,772	\$3.50	\$3,044,202	\$3.50	\$4,106,256	\$3,044,202	\$0
Multi-Line Access Lines	235,788	\$9.20	\$2,169,250	140,100	\$9.20	\$1,288,920	\$6.00	\$1,414,728	\$840,600	(\$1,202,842)
Non Primary Res Access Lines	85,716	\$6.07	\$520,296	43,296	\$6.07	\$262,807	\$3.50	\$300,006	\$151,536	(\$331,561)
Total EUCL Revenue			\$6,795,802			\$4,595,929		\$5,820,990	\$4,036,338	(\$1,534,402)
Total Revenue			\$18,100,490			\$11,928,365		\$16,408,861	\$12,698,429	(\$921,565)
Originating Composite Rate Per Min Including PICC Rev			0.0321241			0.0329829				
Terminating Composite Rate Per Min Including PICC Rev			0.0260989			0.0192032				

Notes:

NECA rates for TIC and Local Switching are Band 1 levels

1997 access billing element relationships used

COMPOSITE RATES DO NOT REFLECT MILEAGE

PICC per minute charge derived and split based on orig/term minutes of use

CERTIFICATE OF SERVICE

I hereby certify that copy of the Comments was served this 24th day of March 2000, by messenger or prepaid express mail to the persons listed below:

By: Janis Lazda
Janis Lazda

The following parties were served:

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Secretary
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